



Why Ofcom must update its fibre costing model to assess the impact of Equinox 2.
A supplementary submission.

INCA

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1 Background

- 1 As part of the Wholesale Fixed Telecoms Market Review (WFTMR), Ofcom built a costing model to assess the costs of Openreach to deploy new fibre networks (the fibre costing model (FCM)). The primary purpose of that model was to understand Openreach's costs, and all inputs were based on Openreach costs and relevant parameters such as a weighted average cost of capital (WACC) network topology, etc.
- 2 Ofcom also used the FCM to estimate the likely costs for an Altnet to deploy a new fibre network. To achieve that, Ofcom modified a number of inputs and assumptions, but the model was largely unchanged and, for example, still reflected the Openreach network architecture rather than a more modern ring-based architecture.
- 3 INCA has submitted detailed analysis of the model and, in particular, the inputs and assumptions used for the version of the FCM used to estimate Altnet costs. We will not repeat that analysis here. This supplementary submission relates to recent facts that were not available at the time of our original submissions.

2 FTTP take-up assumption in the FCM

- 4 The FCM assumes that an Altnet will reach maximum penetration in 3 years. The definition of maximum penetration depends on the market circumstances. For example, where only one FTTP provider is present, maximum penetration would likely be in the range of 85-90% of premises in the relevant geographic area, whereas in markets with two or three FTTP providers the maximum penetration would be correspondingly lower.
- 5 In the specific INCA FCM submission to Ofcom, dated January 9th 2023,¹ INCA presented an analysis of the Openreach FTTP take-up. The analysis was based on Openreach data in the public domain and showed that Openreach was reaching approximately 27% FTTP take-up in aggregate (reflecting some areas where FTTP has been available for several years and other newer deployments). When modelled assuming a maximum penetration level of 90%,² we calculated that it would take Openreach at least seven years to reach that

¹ <https://www.inca.coop/system/files/inca-and-zzoomm-ofcom-reo-fibre-costing-model-review-23011030.pdf>.

² This level was used due to Openreach typically being the only FTTP provider where it has deployed.

level with all the large retail brands promoting its FTTP service (incentivised by a succession of discount schemes of which the Equinox series is the latest).

2.1 New information

- 6 At recent industry events, Openreach has provided further insight into its FTTP take-up.
- 7 At the Connected North conference in Manchester 17-18 April 2023, Matt Hemmings, Openreach Managing Director Fibre & Network Delivery at Openreach, was interviewed by Total Telecom³ and made the following statement:

“Full fibre networks are running ahead of their time [...] the speeds you can get today on copper and coax are pretty much good enough” and “Openreach is reaching 30% FTTP take-up”
- 8 Further, at the FTTH Council conference in Madrid 18-20 April 2023, Catherine Colloms, Openreach Managing Director of Corporate Affairs and Chair of the Openreach Northern board, stated that Openreach was reaching “25 to 30% FTTP take-up” and referenced the near ubiquitous availability of FTTC as a reason for why some customers are not yet willing to take FTTP.
- 9 INCA believes that this **new information, which confirms INCA’s original analysis that even Openreach is struggling to get the desired FTTP take-up** (using all the main broadband ISP brands), further highlights the need for Ofcom to recognise that some of its assumptions in the FCM were wrong, for both Openreach and Altnets.
- 10 **A three-year period to full take-up levels is simply unrealistic for any provider in the UK, where FTTC and cable broadband products are delivering adequate connectivity (for today’s requirements) for a large part of the retail market.**
- 11 Ofcom acknowledged in the WFTMR that the business models it had received from Altnets typically showed a 10-year period to full take-up, and provided no rationale why it chose a modelling assumption that was so materially different. It is evident that slower take-up (and thus revenue-generation) will have material impact on the unit costs generated by the model. Our full analysis is in the original submission.

³ <https://totaltele.com/openreach-the-full-fibre-take-up-challenge-and-building-networks-of-the-future/>

2.2 Ofcom has no rational justification for not using readily available data

- 12 As an evidence-based regulator about to make a new decision about how Equinox 2 could impact FTTP network competition in the UK, Ofcom would be behaving in an irrational and unreasonable manner if it were to refuse to use the facts at its disposal.
- 13 **Modifications to and updating the FCM would not constitute reopening the WFTMR.** The WFTMR is a framework, within which the Equinox 2 impact analysis is being conducted. Ofcom is using current data for other parts of its Equinox 2 impact (such as current levels of network overlap and current market wholesale prices) assessment but is refusing to do so when it comes to analysing the impact of the actual price levels resulting from Equinox 2.
- 14 There is no plausible reason for why Ofcom cannot update the FCM. **The parameters identified in INCA's FCM submission in January are all easily adjustable and most were, in fact, adjusted by Ofcom originally to create the FCM version that estimates Altnet costs.**
- 15 It is INCA's view that not using current that is data readily at Ofcom's disposal as part of the Equinox 2 impact assessment would amount to a dereliction of duty by Ofcom.